MEETING OF THE BOARD OF CREDIT UNION ADVISORS

July 8, 2014
10:00 am

Utah Department of Financial Institutions
324 South State Street, Suite 201
Salt Lake City Utah

Minutes

BOARD MEMBERS PRESENT:
Dean Hirabayashi, Scot Baumgartner, Meagan Nattress and Kent Greenfield.

DEPARTMENT OF FINANCIAL INSTITUTIONS STAFF PRESENT:
Ed Leary, Orla Beth Peck, Paul Allred, Riley Bergstedt, Darryle Rude, Paul Cline and Merisa Lanford

OTHERS PRESENT:
Paul Atkinson from Alpine Credit Union

1. Call meeting to order – Dean Hirabayashi

2. Department Changes-Commissioner Leary

Commissioner Leary began by explaining the organizational changes to the department that will take effect on August 1, 2014. A new Department Organization Chart was passed out. Jerry Jaramillo, the Supervisor of Money Services Businesses & Trust and Orla Beth Peck, Supervisor of Credit Unions, will both be retiring in July. The legislature also approved the department to create a new position called the Finance Director. Michael Jones has been the Chief Examiner and doing the financial side of the position. Michael agreed to take the position of Finance Director full-time and Darryle Rude (currently the Supervisor of Industrial Banks) agreed to become the Chief Examiner. Other changes include: Shaun Berrett will be the Supervisor of Holding Companies; Paul Cline will be the Supervisor of Money Services Businesses; Mark Peterson (currently the Supervisor of Holding Companies) will be the Supervisor of Industrial Banks; Riley Bergstedt will be the Supervisor of Credit Unions. Riley, Paul and Darryle were asked to briefly introduce themselves. Commissioner Leary also mentioned that there are six examiner positions that will need to be filled in the coming months.

3. Minutes

October 8, 2013, January 12, 2014 and April 8, 2014 minutes needed to be approved. There were no comments or corrections. Scot motioned for all three sets of minutes to be approved. It was unanimous.

4. Credit Union Issues-Orla Beth Peck

Orla Beth brought up the NCUA's proposed Risk Based Capital Rule. She has heard that it is going to cause problems for some credit unions because the risk rating is more stringent on credit unions than it is on the community banks. Orla Beth encouraged all credit unions to look at that rule and see how it would affect your credit union and comment on the rule. Dean said the comment period is over but the NCUA is having town hall meetings that are recorded and available on www.ncua.gov. Commissioner Leary asked if the Utah Association is taking a stand or if they are concerned. Dean said that they attended the town hall meeting and encouraged credit unions to comment. However, he does not know if they have taken an official stand. Dean said that as it is right now it only affects those over $50 million. Scot mentioned that a few congressmen and senators have opposed this rule and Dean said that congress has been very vocal about this issue. Kent said that about 80% oppose the rule. Paul Allred asked if NASCUS had taken a position and Orla Beth said that they did file a letter opposing the rule.

Orla Beth brought up the NCUA imposing a civil money penalty to credit unions that are late submitting the CALL Report. She said there is no grace period. If you are a minute late a civil money penalty will be incurred.
A small Utah credit union incurred a $162 civil money penalty for being three days late. If they would have fought the penalty the minimum fine would have been $1,000. A credit union in New Mexico was 22 days late and fined $59,000. The department can also assess a $50 a day fine after it is 30 days late. Orla Beth said that she has only had to do that once. Orla Beth did say there were a few errors due to a glitch on the NCUA side. The NCUA said they had not submitted their reports when in fact they had. Orla Beth said that they will be watching for credit unions that file their CALL Report and then go in and amend it. She recommends that all credit unions

be aware of the deadline. The NCUA said that they were having problems with credit unions not filing on time; however, most of those were federal credit unions.

5. Exam Issues-Orla Beth Peck

Orla Beth said that the three main focus areas in exams this year are interest rate risk, cyber security and consumer compliance. Scot said that he attended a conference where they talked about these issues and they also mentioned liquidity and cash flows. Scot asked why a statement of cash flow is not published and if there were any plans on the state level for that. Commissioner Leary said that the department used to issue a balance sheet and income statement but it was in aggregate for all state chartered credit unions. The CALL Reports are publicly available for anyone to view.

Scot asked if the emphasis on interest rate risk will be place on long term assists and what the benchmarks will be. Orla Beth said the target will be around 30% or less. She said the NCUA probably won't have a hard rule; it will be viewed more as guidance. At the national meeting she said there was a slide that showed that credit unions usually look at their money market accounts as not being very volatile but they can be. She said it's important to use a model and verify your assumptions throughout whatever means you can. Scot said that since it's considered a guideline and each credit union sets its own guideline then how does the examiner determine if it is adequate? Orla Beth said that the best thing a credit union can show an examiner is that they tested the assumptions and show them how the credit union performed. Darryle said that assumptions are critical and need to be realistic. He said that assumptions and models would be a good starting point and then buying a model might be the next step for credit unions. Orla Beth mentioned that one of the concerns is that not only are the loans going out longer term but also the maturity on investments. Scot agreed and said that the only lending that most credit unions are doing right now is in the mortgage area. Orla Beth said that some credit unions try to mitigate the longer term by having call options or some type of feature on their real estate products. Scot mentioned that those options are useful for the credit unions but members don't want to bother with that kind of product. Members prefer to be locked into a rate and variable rate products are hard to sell.

Orla Beth said that one thing that UDFI is adopting that the NCUA is not is a CAMELS rating where liquidity and sensitivity is separated. They have been lumped together in the rating but now they will be looked at separately with separate ratings. Orla Beth said the liquidity benchmark used to be 5% but it has not been used in several years. It now depends on the credit union's analysis since you know your credit union's cash flow better than the examiners.

Scot asked what the expectations are regarding cyber security. Orla Beth it's important to be aware of what could happen and what has happened. She said institutions should know how to protect themselves according to their size and be aware of what is available to protect themselves. Orla Beth said that some credit unions have had denial of service attacks against their website. While the employees are busy with the website an ACH takeover of an account can occur or another back door kind of attack. Vendor management, business continuity plans, and contingency plans are very important. Scot mentioned that he would like to see the legislature put some burden on the vendors and Commissioner Leary said that it is being discussed nationally due to the Target breach.

Scot mentioned that the NCUA only considers credit unions under $50 million as small credit unions. A discussion ensued regarding the NCUA. It was discussed that small credit unions feel like they have to meet the same burden of regulation as large credit unions do and it is difficult.

6. Next Meeting-October 7, 2014

7. Adjourn